Natural Gas Market Indicators

American Gas Association

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Reported Prices – new developments continue to shape expectations for oil supply, demand, and prices. Price movements are shaped by factors like worries about a second wave of coronavirus infections, but also announcements of new supply cuts from Saudi Arabia. Oil prices are trading again above $27 per barrel at West Texas Intermediate. Brent crude remains at a premium at $31 per barrel. Meanwhile, contracts for natural gas are trading at $2.90 per MMBtu for delivery six months from now. To put that in context, it's over a 50 percent increase from the current spot price at Henry Hub of $1.84 per MMBtu.

Weather – May is underway and so is AGA's weekly cooling degree day (CDD) report. During this time of year, typically mild temperatures mean that small deviations in the cooling degree day count can lead to big percentage changes. However, the first two weeks of CDD data in May did not account for the record cold seen Mother's Day weekend across most of the country when unseasonally cold weather plunged into the Midwest, South and East. For the week ending May 2, a cumulative total of 12 cooling degree days (CDDs) was consistent with the 30-year average of 12 CDDs. For the week ending May 9, temperatures were 11.1 percent warmer-than-normal as the US posted 16 CDDs as a whole. As always, AGA will continue its reporting on weather and temperature trends throughout the summer that affects natural gas demand, particularly power burn, and the storage refill.

Working Gas in Underground Storage – the week ending May 1 saw 109 Bcf for the gas storage build, the first triple-digit injection of the season. The week ending May 8 brought a net change of 103 Bcf of natural gas into storage stocks. These strong builds demonstrate why inventories are climbing back well above average levels. Total inventories now stand at 2,422 Bcf, which is 49.2 percent above year-ago levels and 20.6 percent above the five-year average. The season's triple-digit storage injections reflects the steady declines in gas demand underway over the past several weeks, as is typical during this shoulder season.

Natural Gas Production – having tagged 88.4 Bcf per day, domestic dry natural gas production has slid back in recent days to its lowest level since July 2019. Month-to-date production volumes in May for the lower-48 are pulling even with year-ago levels, up only 0.3 Bcf per day compared with May 2019 at 89.4 Bcf per day. Associated gas production declines resulting from weak oil prices and decreased drilling activity measures are beginning to materialize in the data. Still, amid lower production levels, year-to-date volumes are running 3.3 Bcf per day above 2019.

Rig Count – drilling in U.S. oil and gas fields fell by 34 rigs to 374 for the week ending May 8, led by a noteworthy drop in rigs seeking oil. Oil rigs accounted for 33 of the drop, with 292 rigs still active. It's the eighth week of decline in a row. In the span of just eight weeks, 53 percent of active American oil rigs have gone dark, according to data released by Baker Hughes last Friday. By contrast, gas-directed rigs fell by only one for the week to 80 rigs in operation, 103 less than this week in 2019. Gas rigs have seen a 25 percent decline over the same eight week period.

Pipeline Imports and Exports – Mexico electricity load is down by more than 10% from the three-year average in May so far, according to S&P Global. Consequently, US pipeline exports to Mexico are down because of lower demand levels. Cross border flows have averaged 4.6 Bcf per day this month to date and are at the lowest monthly average since June 2018. Meanwhile, month-do-date import volumes from Canada are down 1.0 Bcf per day compared with May 2019. Daily averages for imports from Canada have stayed consistent at 3.3 Bcf per day for May, fluctuating generally only 0.2 Bcf per day.

LNG Markets – LNG fundamentals in Asia have started to take a more bearish turn in recent weeks as Japanese LNG imports fell to their lowest level dating back to 2014. Demand for key sectors in the gas markets such as power, manufacturing and residential are not expected to be impacted long-term, especially as the most-restrictive lockdown measures are lifted, according to S&P Global. The main risk to LNG demand in the coming months may stem from weak global economic fundamentals, which could hurt downstream consumption and slow manufacturing demand in Asia. Back at home, US LNG feedgas deliveries have fallen to 6.3 Bcf per day, the lowest level in seven months. Still, month-do-date flows of US feedgas for export are averaging 7.3 Bcf per day in May, which is 30 percent above May 2019.

Natural Gas Market Summary – Data is continuing to clarify the natural gas market impacts from the COVID-19 pandemic and the evolving dynamics in the global oil market. Aggregate demand is averaging 66.4 Bcf per day this May, 1.8 Bcf per day below this month in 2019, with the decrease in industrial, residential and commercial demand more than offsetting the increase in natural gas to power generation. Two back-to-back weeks of triple-digit injections into underground storage drove inventories to 20.6 percent above normal as Henry Hub futures settle close to even at $1.70 per MMBtu as of Thursday, May 14. As many states begin to ease restrictions to non-essential businesses, we will continue to track the market throughout this shoulder season.